

Ways and Means Committee Democrats

Rep. Charles B. Rangel, Ranking Member



Don't be fooled by the Republican Trojan Horse!



The GOP Tax/Budget Agreement
is no gift to American families

The Democratic Tax Relief Plan Gives
Tax Cuts to Every American Family and
Fits in a Fiscally Responsible Budget

REPUBLICAN TAX CUTS ADD UP TO \$3 TRILLION

Bold - passed House *Italics - other GOP commitments* Underlined - Bush campaign promise

LEGISLATION

COST (in billions)

H.R. 3 Lower Income Tax Rates **\$958**

H.R. 6 Phased-in “marriage penalty”/child credit bill **\$399**

H.R. 8 Phased-in estate tax cuts/full repeal in 2012 **\$186**

H.R. 10 Pension/IRA tax benefits **\$ 52**

Debt Service on tax bills already passed by House **\$388**

Economic stimulus tax cut **\$100**

Charity-related tax benefits **\$ 56**

Make business research credit permanent **\$ 50**

Expand Education IRAs **\$ 6**

Health-related (such as MSAs) and other tax breaks **\$136**

Small business tax breaks **\$ 36**

Renew expiring tax benefits known as “extenders” **\$ 39**

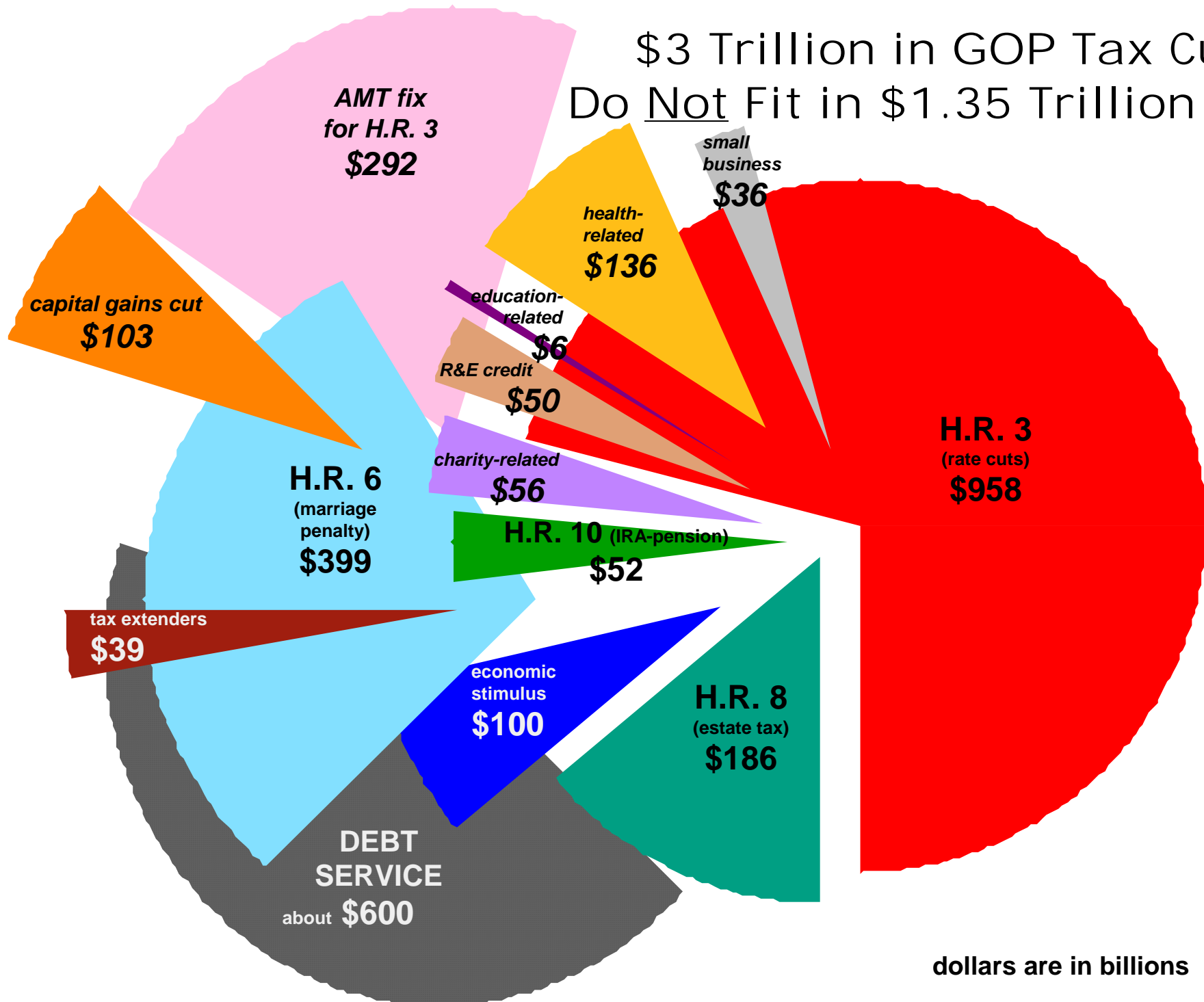
Fix AMT so that promised benefits of HR. 3 are not denied **\$292**

Cut maximum capital gains tax rate to 15% **\$103**

Resulting debt service from pending GOP commitments **\$219**

TOTAL COST OF GOP TAX CUT COMMITMENTS	\$3.02 Trillion
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\$3 Trillion in GOP Tax Cuts Do Not Fit in \$1.35 Trillion Pie



THE DEMOCRATIC TAX CUT PLAN

Democrats Offer a Fair and Fiscally Responsible Tax Cut Plan that would Boost the Economy

THE DEMOCRATIC TAX CUT FITS IN A FISCALLY RESPONSIBLE BUDGET

- ▶ The Democratic tax cut leaves room for vital investments in areas such as prescription coverage, education, agriculture and defense.
- ▶ Social Security and Medicare surpluses are placed off-limits.
- ▶ It pays down the debt and ensures that vast deficits will not return should CBO's uncertain surplus estimates fail to materialize.
- ▶ Unlike the GOP plan, it is honest and ensures the AMT will not prevent middle-income people from the full benefits of the tax cut.
- ▶ Unlike the GOP plan, its costs do not explode in the future, threatening Social Security and Medicare.

THE DEMOCRATIC TAX CUT IS FAIR TO WORKING FAMILIES

- ▶ The Democratic tax cut is fair to all families – the rich do not get a disproportionately large share compared to middle income families.
- ▶ It is truly across the board, including tax cuts for working families who pay payroll and other federal taxes but not income tax.
- ▶ It is fair to families, farmers, and small business owners by immediately addressing the marriage penalty and the estate tax.

THE DEMOCRATIC TAX CUT ENCOURAGES ECONOMIC PROSPERITY

- ▶ The Democratic tax cut puts money directly into families' pockets – immediate tax relief is not held hostage to passage of the Bush plan.
- ▶ It promotes lower interest rates by leaving room to pay down debt.
- ▶ It takes effect quickly – unlike the GOP, Democrats do not pretend that tax cuts taking effect in 5-10 years can boost today's economy.
- ▶ Democrats avoid 1980s' supply-side "voodoo" economics which led to record deficits and a bad recession under the first President Bush.

THE DEMOCRATIC TAX PLAN FITS WITHIN A RESPONSIBLE BUDGET

**\$519
billion**

I. Tax relief to every working family (in H.R. 1398)

(A.) The Democratic tax cut would create a new 12%-rate bracket for the first \$20,000 of taxable income for couples and \$10,000 for singles (approximately \$41,000 of total income for couple with 2 kids). This rate reduction phases-in during 2001 and 2002 and is fully effective in 2003.

(B.) To help those families with children that pay disproportionately high payroll and other taxes in comparison with their income taxes, the EITC is simplified and increased. The credit is generally increased by \$272 for families with one child and \$320 for families with two or more children.

**\$72
billion**

II. Marriage Penalty Relief (in H.R. 1398)

The proposal creates a standard deduction for married couples equal to twice the standard available to single individuals. So the current law standard deduction of \$7,800 per couple is increased to \$9,300. In addition, the EITC and rate reduction provisions include marriage penalty relief.

**\$39
billion**

III. \$5 million per couple exemption from estate tax (in H.R. 1398)

The proposal immediately exempts about 75% of those currently subject to the tax by raising the exemption to \$4 million per couple (\$2 million per individual). The exemption phases up to \$5 million per couple by 2010.

**\$180
billion**

Debt Service included on H.R. 1398

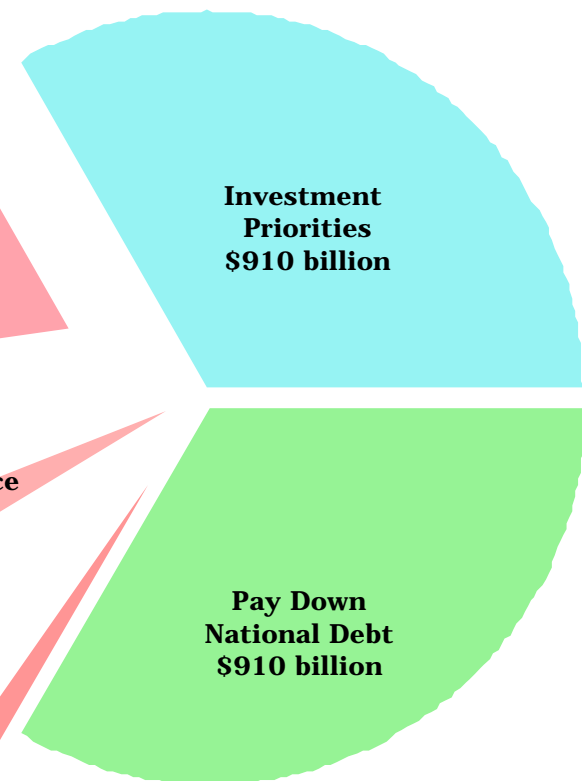
**\$100
billion**

The Democratic plan reserves \$100 billion for additional tax cuts

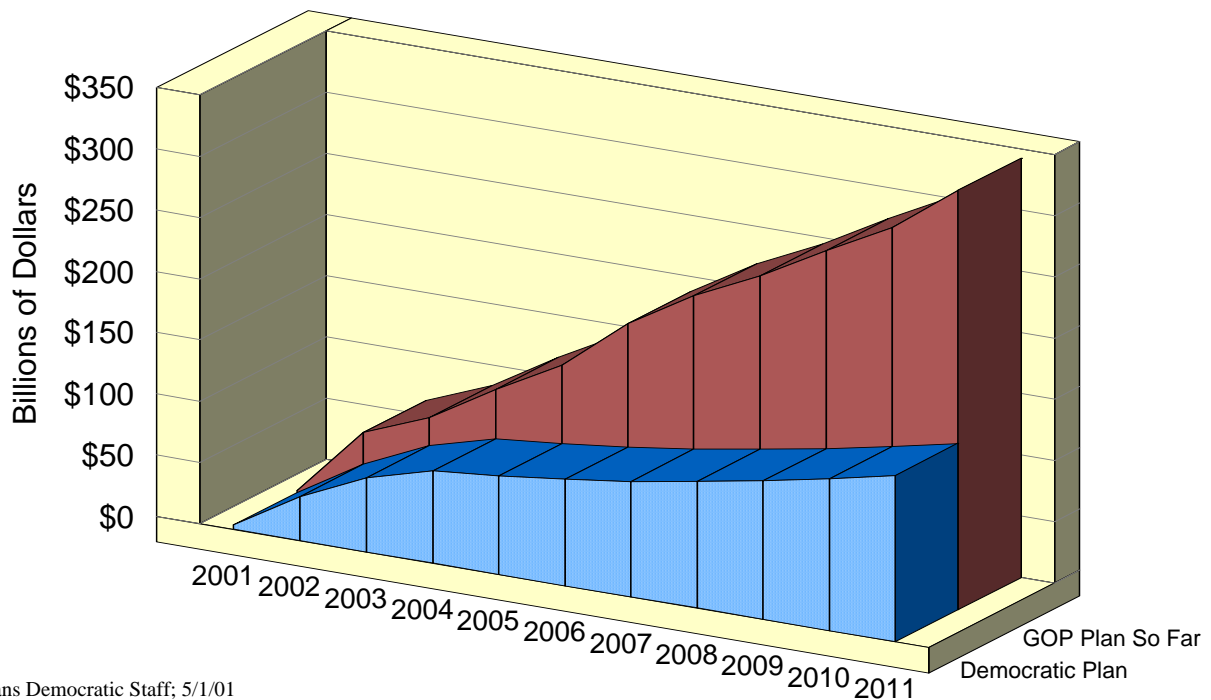
**\$910
billion**

TOTAL TAX CUT INCLUDING DEBT SERVICE

Prepared by the Democratic Staff of the Committee on Ways and Means for Rep. Charles B. Rangel, 5/2/01



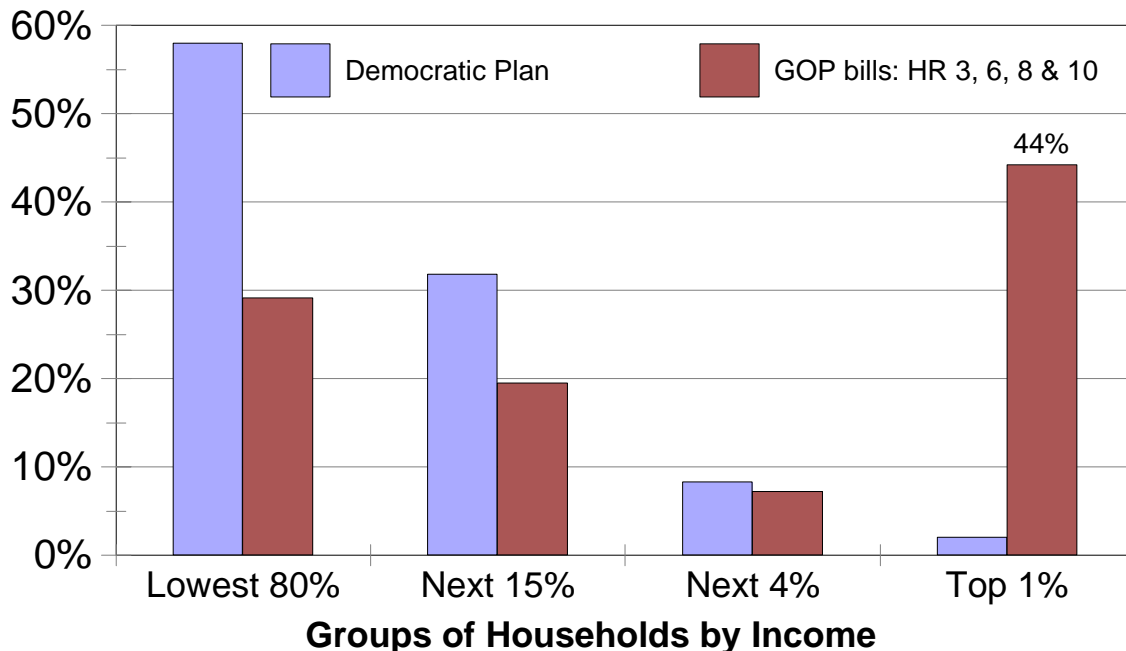
GOP Tax Bills Mortgage Future Budgets Unlike Democratic Tax Cuts



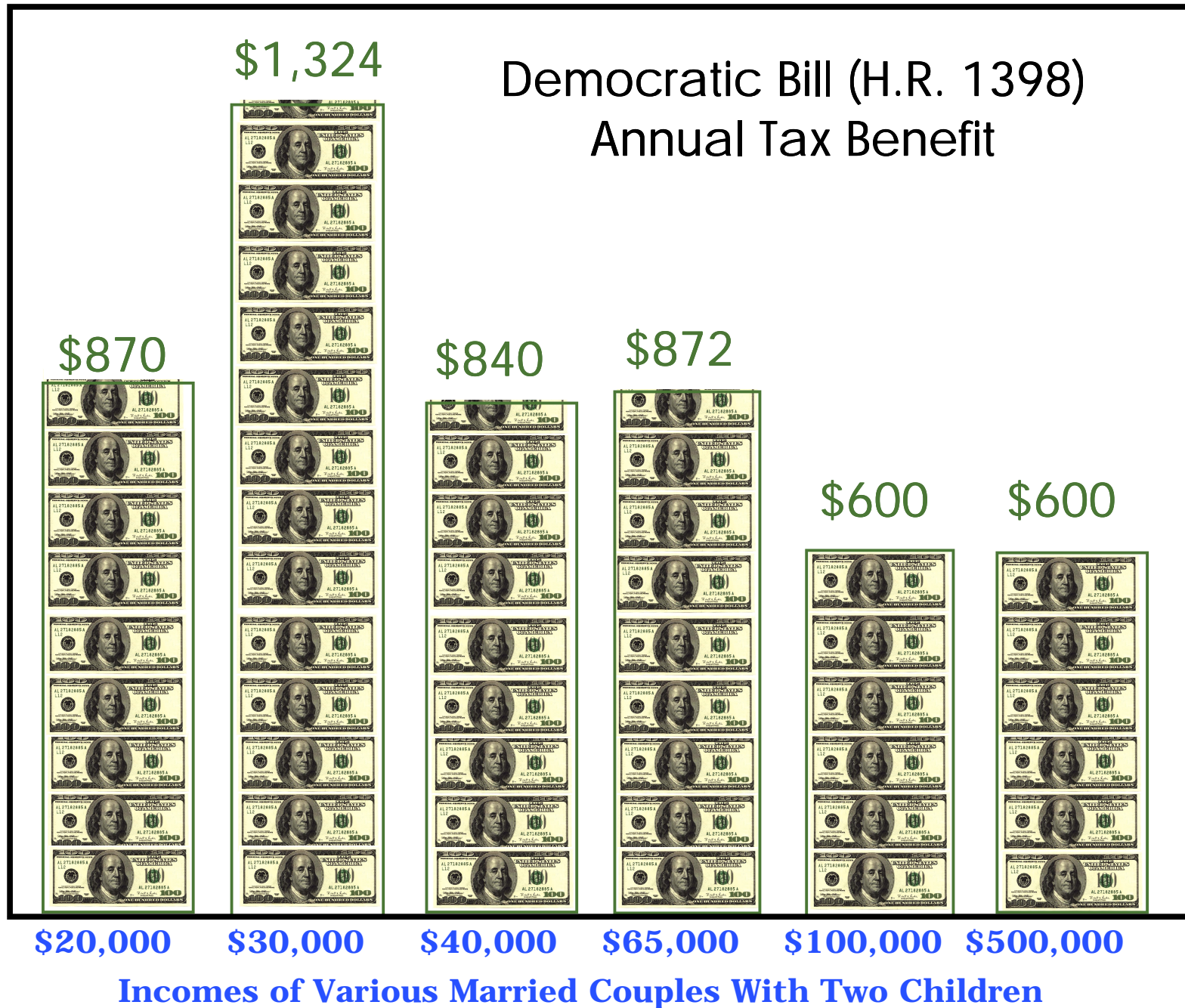
Ways & Means Democratic Staff; 5/1/01

GOP amounts are for H.R. 3, 6, 8 and 10. Both series include higher debt service because the starting point for a budget is a surplus projection that has retirement of federal debt. When taxes are cut, there is less debt reduction and therefore higher debt service.

Democratic Tax Cut Bill Is Progressive and Middle-Income-Oriented: Percent Shares of Tax Cuts by Income Group



The Democratic Tax Cut Puts Money in the Pockets of All American Families



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Tax-Cut and Budget Status Report

Republican Budget Conference Agreement is not a real budget

Officially, the GOP Conference Agreement calls for \$1.35 trillion in tax cuts over 2001-2011, rather than President Bush's \$1.6 trillion.

However, Republican Leaders already have spoken of passing more tax cuts after they have implemented the Budget Resolution. As the table and chart at the beginning of this packet show, tax cut promises and imperatives add up to much more than \$1.35.

Senate Republican Leader Trent Lott calls for a capital gains tax cut, most recently as something to attach to a minimum wage bill.

Senator Charles Grassley, Chairman of the Finance Committee, recently explained that if the Budget Resolution calls for significantly less than \$1.6 trillion in tax cuts, then consideration of other tax cuts will have to be "put off until a subsequent tax bill." He said that "we might have to take up some parts of the package, like repeal of the marriage penalty or the death tax, at a later time as free-standing bills."

Ways and Means Committee Chairman Bill Thomas earlier suggested that the House may consider additional tax relief beyond Bush's \$1.6 trillion. An example he gave was the extension of expiring tax benefits. He explained that things that were not in the President's budget did not have to "fall into" the President's figure.

On Tuesday, Senator Phil Gramm said that "there are different ways to skin this cat," noting that there will probably be additional tax cuts voted on later this year. Gramm said "I'm going to make it clear when we vote on this budget that I'm not bound by the tax numbers."

According to the Washington Times last week, an unnamed Republican official said “It is not hard to see that we could easily approve additional tax cuts later this year, and next year, that could exceed the \$1.6 trillion Bush has proposed.”

As in previous years, the GOP Leadership is likely to attach their “outside-the-budget” tax cuts to Democratic-inspired legislation like an increase the minimum wage and a Patients’ Bill of Rights.

The Budget Resolution is not a real budget for spending. For example, last week, USA Today reported a leak from the Pentagon that the President may soon propose to increase defense spending by \$200 to \$300 billion over the next six years. This is far greater increase for the military than the increase in the April 9 Bush budget and the increase in the Budget Conference Agreement.

President Bush's tax cut proposals

President Bush proposed major tax cuts during his campaign for office. As he battled tax-cutter Steve Forbes for the nomination, Bush's tax-cut proposals were described in detail in a December 1999, campaign document. At the time, Democratic staff estimated that the Bush tax plan would reduce budget surpluses by about \$2 trillion over ten years, including the effect of higher Federal payments to bondholders who will have to lend the government more money than otherwise.

The large budget effects of the Bush tax cuts are masked by slow phase-ins. The size grows larger and larger as the budget surplus projections grow more uncertain. The Congressional Budget Office acknowledges that there is a 50% chance that half of the surplus projected for five years from now may not materialize. The full effects of the Bush tax cuts will not be felt until the Federal budget begins to face pressure from the costs of promised benefits for retiring baby-boomers.

The Bush tax cuts also are tilted toward the affluent. The Citizens for Tax Justice estimate that 45% of the benefits go to the most affluent 1% of all households.

The unfairness of the Republican tax proposals should not be obscured by erroneous claims about single mothers with \$22,000 in income being helped and about everyone who pays taxes getting a tax cut. Tens of millions of households with payroll and excise tax burdens get no help from the Bush tax cut, and these are low-income households who have shared little in recent prosperity and who need help the most. This tilt in the Bush tax cuts should not be masked by misleading statistics on 50% and 90% income tax cuts for households with modest incomes. A 50% cut in a \$200 tax bill really isn't very much.

In February 2001, President Bush sent a message to Congress on his tax cut proposals. That message was less specific about the proposals than his 1999 campaign document.

In late February 2001, President Bush also sent a budget sketch called a "Blueprint" to the Congress. This document added little information on the tax cut proposals but did include estimates showing that his proposed budget for tax cuts is \$1.6 trillion over ten years (fiscal years 2002-2011), and \$2 trillion including higher debt service.

A more complete Bush budget was released April 9. That budget provided more details on the Bush tax cut package, especially for twenty-one smaller targeted tax cuts. However, there was really no change in the essentials. The Treasury Department estimated a budget effect of \$1.6 billion over ten years, not including higher debt service.

House and Committee Action

The tables and charts included with this packet summarize recent House action on tax cuts and some of the tax cuts that have been promoted by Republican Congressional Leaders. All told, they add up to about \$3 trillion dollars including the higher interest that will have to be paid to bondholders because Federal debt is not retired.

On March 1, Ways and Means Committee Chairman Thomas began to mark up and report tax-cut bills to the House, before the Bush budget sketch was even released. The House has voted on four tax-cut bills:

- H.R. 3, which cuts the tax rates used for the regular individual income tax,
- H.R. 6, which cuts taxes for married couples and increases the child tax credit,
- H.R. 8, which repeals the estate and gift taxes in the year 2011, and
- H.R. 10 which increases tax benefits for pension and IRA plans.

These four bills use up all but about \$50 billion of President Bush's 10-year \$1.6 trillion tax-cut budget. However, there are more proposals on the way.

- There are more major Bush proposals still on the way in terms of legislation to report to the House (e.g., “charity super-deductions,” health- and long-term care related tax benefits, extension of the Research & Experimentation credit, housing-related tax benefits).
- Besides these other Bush proposals, Republican Leaders have spoken repeatedly about their desire for other tax cuts such as a capital gains tax cut, so-called “small-business-related” tax cut that would be joined with a minimum wage bill, and extensions of expiring tax benefits.
- The cuts in the regular income tax rate create at least a \$292 billion mortgage on future budgets, because of lack of collateral changes in the Alternative Minimum Tax (AMT). The AMT creates a floor below which regular tax cuts do not benefit an individual taxpayer. It would take at least \$292 billion more just to make sure that the promised cuts in the regular income tax actually materialize for 36 million taxpayers.

- The tables in this packet do not even account for business tax benefits that are quietly being promised to those who wait their turn while supporting the current Bush tax-cut plan, nor do they anticipate a variety of energy production tax breaks that may soon be recommended by the Administration.

ON A COMPARABLE BASIS, THE BUDGET CONFERENCE AGREEMENT'S TAX CUTS ARE ALMOST TWICE THE SIZE OF THE TAX CUTS IN THE FISCALLY PRUDENT DEMOCRATIC PLAN WITH ITS BALANCED PRIORITIES
AND MORE TAX CUTS ARE WAITING IN THE WINGS

	HOUSE DEMOCRATIC TAX-CUT PLAN (\$ billions)	HOUSE GOP TAX CUTS* (\$ billions)	BUDGET CONFERENCE AGREEMENT	RATIO OF POSSIBLE CONFERENCE TO HOUSE DEMOCRATIC PLAN
	<u>2002-2011</u>	<u>2002-2011</u>	<u>2001-2011</u>	
Amount before debt service	710	1,595	1,350	
Higher debt service	200	372	369	
TOTAL	910	1,968	1,719	189%

*H.R. 3, 6, 8 & 10

Ways and Means Democratic Staff
05/02/01

Even more so than the Bush plan, the House-passed bills so far, H.R. 3, 6, 8 and 10 rely heavily on slow phase-ins and delayed effective dates to mask the ultimate claims that will be made on the budget. For example, the increase for couples in the bottom of the 28% tax-rate bracket is not fully effective until 2009. The increase in the child credit is not fully effective until 2006. The repeal of the estate tax does not take place until 2011.

The bills H.R. 3, 6, 8 and 10 are just as tilted to the affluent as the Bush plan. The Citizens for Tax Justice estimate that 44% of the benefits of the bills, when fully phased in, will go to the most affluent 1% of households.

House Democratic response

House Democrats want to protect and strengthen the Social Security and Medicare trust funds and use the other budget resources for a balanced program of tax cuts, debt reduction, and other priorities such as adequate prescription drug insurance for seniors, education, agriculture, improved living conditions for the military, and a strong adequate budget for the military.

For these reasons, the House Democratic budget allocates one-third of non-Social-Security non-Medicare surpluses to tax cuts, one-third to debt reduction and strengthening Social Security and Medicare, and one-third to other priorities.

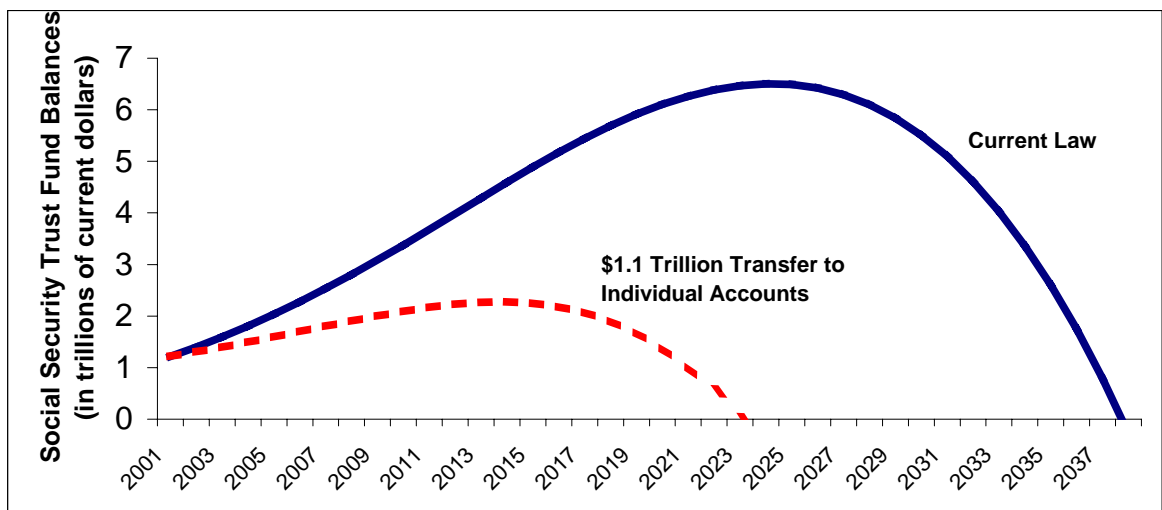
The Democratic tax-cut budget does not mortgage America's future with slow phase-ins, delayed effective dates and exploding costs. Democratic tax cuts cannot, therefore, be bigger for most households than the promises Made by the Republican tax cut bills. The Democratic tax cuts are, however, more fair and more fiscally responsible.

They Democratic tax cuts also allow the country's economy to grow and benefit as it has in the last eight years from a prudent course of action that will add to national savings and keep interest rates from rising due to an out-of-control budget.

The Democratic tax cuts do not leave low-income families behind. They includes marriage-penalty relief and they give every taxpaying family a tax cut. It provides quicker and bigger estate tax relief for more than 99 percent of decedents and their heirs.

THE REPUBLICAN BUDGET: (LESS THAN) NOTHING FOR SOCIAL SECURITY REFORM

- Due to long-term demographic trends, Social Security is projected to face a serious financing challenge in the decades ahead. The Social Security Board of Trustees estimates that the surpluses currently accumulating in the Social Security Trust Funds will be exhausted by 2038 and that, at that time, incoming tax revenue will be sufficient to pay only about 73 percent of expected Social Security benefits. Consequently, to meet this challenge and to fulfill the nation's obligations to current and future retirees, Social Security will require some infusion of additional resources.
- Yet, the Republican budget resolution fails to aside a single additional dollar to strengthen Social Security. Under the budget proposed by President Bush and backed by Congressional Republicans, all of the projected surpluses outside of Social Security and Medicare are likely to be consumed for other uses. CBO projects that over the FY 2002 to FY 2011 period, budget surpluses outside of Social Security and Medicare will total \$2.7 trillion, but the cost of Republican tax commitments alone add up to over \$3 trillion.
- The Republican budget not only fails to set aside additional resources for Social Security; it also fails to provide a source of funding to create the system of individual accounts that the Social Security Commission that President Bush recently appointed will recommend later this year. Setting up such a system could cost \$1.1 trillion over the next ten years.
- The question must be asked: "Where would that money come from?" Given the Republican budget, the only answer available to President Bush's Commission is: "From Social Security." Of course, even though Social Security is currently running surpluses, those surpluses are already spoken for, as they will be used to make payments to future beneficiaries. In fact, the projection that the Social Security Trust Funds will be exhausted in 2038 is based on the assumption that those surpluses will continue to run for several decades.



- As a result, taking \$1.1 trillion out of the Social Security Trust Funds to set up a system of individual accounts would greatly accelerate their exhaustion and leave the program unable to pay full benefits even sooner than expected. As the chart above shows, using \$1.1 trillion from the Social Security Trust Funds to fund private accounts would mean that the Trust Funds would run out in 2024 rather than 2038 as under current law.

Democratic Plan
for Balance Among Budget Priorities
(CBO 10-year Estimates, Trillions of Dollars)

Total (i.e. Unified) Surplus	5.610
<i>Less:</i>	
Social Security Surplus	2.488
Medicare HI Surplus	0.392
<i>Equals:</i>	
Available Surplus	2.730
1/3 for Fair Tax Cut	0.910
1/3 for Priority Investments	0.910
1/3 for Long-Term Obligations	0.910

Democratic Budget

Tax Relief for All Taxpayers

**Credible Medicare
Prescription Drug Benefit**

Extends Medicare Solvency

Extends Social Security Solvency

**Realistic Funding for Priority
Investments Like Education**

**Pays Off All Redeemable
Debt by 2008**

Republican Budget "Plan"

(CBO 10-year Estimates, Trillions of Dollars)

Total (i.e. Unified) Surplus	5.610
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Less: Social Security Surplus	2.488
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(Note: Republicans claim to put Medicare surplus in a "lock box" but then allow lockbox to be raided for other uses including prescription benefit, contingency fund, and additional tax cuts.)

<i>Equals:</i> Non-Social Security Surplus	3.122
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Approximate 10-year Costs of GOP Commitments:

Tax Cuts, including debt service
\$3 trillion

Defense Reform and Missile Defense Shield
\$400 billion +

Prescription Benefits for Seniors
\$300 billion

Saving Medicare Surplus
\$393 billion

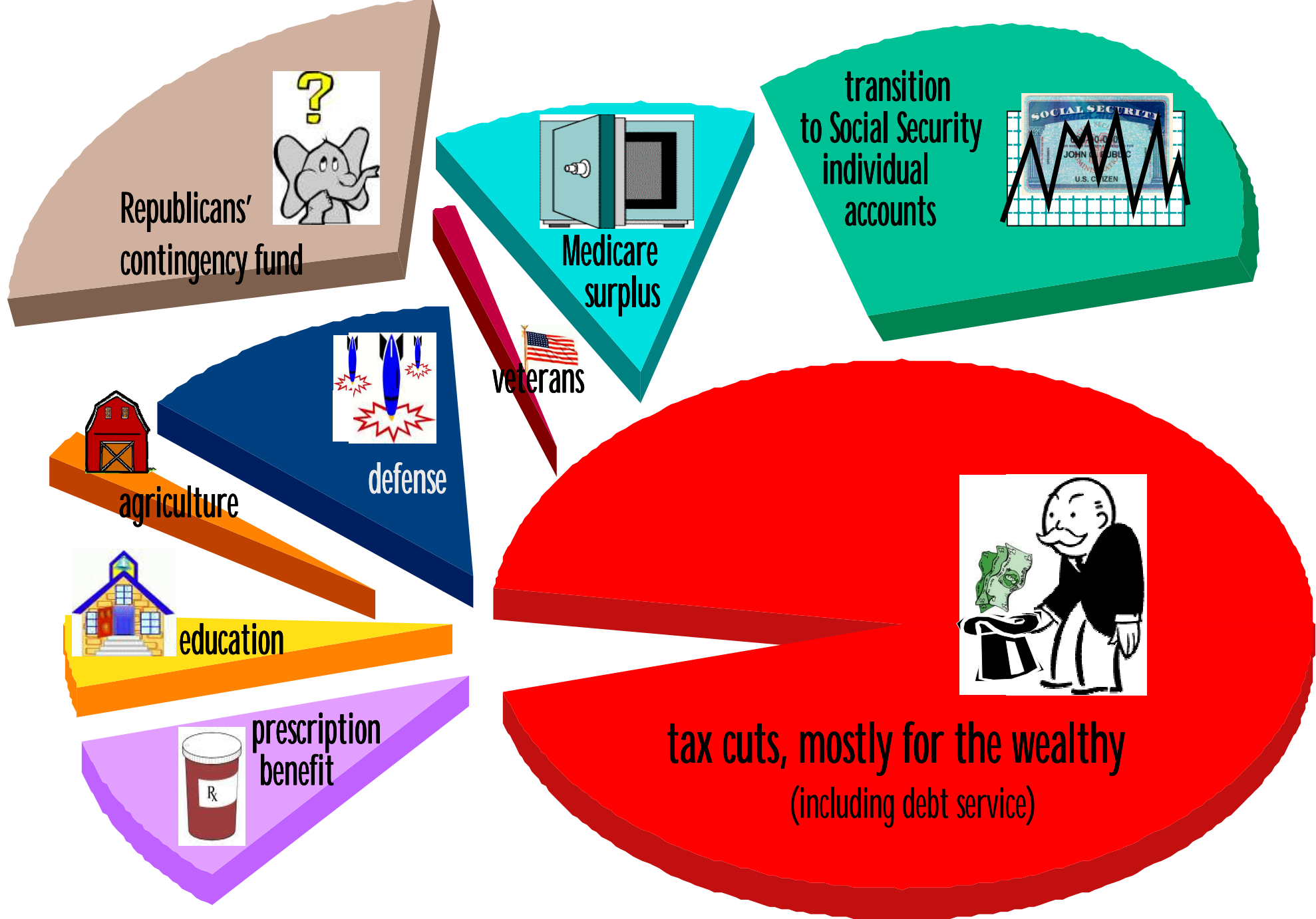
Education (?)
\$150 billion

Agriculture
\$60 billion

Veterans
\$20 billion

Transition costs to partially privatize Social Security
up to \$1.1 trillion

Contingency Fund
\$800 billion (?)



Republican promises far exceed
\$3.1 trillion non-Social Security surplus

Prepared by the
Democratic Staff of the
Ways and Means Committee
for Rep. Charles B. Rangel
May 6, 2001